

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 NEA-10 ISO-00 SCEM-02 INT-08 AID-20

CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01

OMB-01 STR-08 DOTE-00 DODE-00 PM-07 H-03 L-03 NSC-10

PA-04 PRS-01 SS-20 USIA-15 ACDA-19 IO-14 DRC-01 /238 W

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R 081625Z NOV 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC 1238

INFO AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGNE

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USCINCEUR

USNMR SHAPE

C O N F I D E N T I A L ROME 12306

E.O. 11652: GDS

TAGS: ENRG, IT

SUBJECT: ITALIAN VIEWS ON OIL SITUATION

REF: ROME 12018 (NOTAL)

1. BEGIN SUMMARY: GOI, AFTER CONSIDERABLE HESITATION AND AVOIDING
THE ISSUE, HAS FINALLY CONCLUDED THAT ITS OWN AND ITS ALLIES'

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INTERESTS ARE SERIOUSLY THREATENED BY MIDEAST OIL SITUATION. GOVT

IN MIDST OF INTENSIVE PUBLIC EDUCATION CAMPAIGN TO PAVE WAY FOR RATIONING MEASURES. INTERNAL PRICE SYSTEM CONTINUES TO AGGRAVATE SUPPLY DIFFICULTIES. ENI REMAINS THE SINGLE VOICE OF OPTIMISM IN ITALY REGARDING SUPPLY, WHEREAS ESSO FORESEES SHORTAGES FOR ITS CUSTOMERS BY EARLY JANUARY. GOI OIL POLICY OBJECTIVES ARE TO PROTECT OWN SUPPLIES, YET AVOID TAKING EXTREME POSITION WITHIN EC RANKS. ITALIANS ACUTELY AWARE OF SERIOUS IMPLICATIONS OF OIL SITUATION FOR BOTH THE COMMUNITY AND THE ALLIANCE. END SUMMARY.

2. ITALIAN GOVT, WHICH HAD BEEN DOWNPLAYING IMPLICATIONS FOR ITALY OF THE RECENT ARAB OIL DECISIONS ON PRICES AND PRODUCTION, HAS IN LAST SEVERAL DAYS SHIFTED ABRUPTLY TO POSITION OF CONCERN OVER WHAT IT NOW CONSIDERS AN EXTREMELY SERIOUS SITUATION WITH POTENTIALLY GRAVE CONSEQUENCES FOR EC AND ATLANTIC ALLIANCE. INITIAL GOI POSTURE HAD BEEN ONE OF HOPING THAT THE OIL PROBLEM WOULD GO AWAY, AND REASSURING THOSE THAT EXPRESSED CONCERN WITH THE LINE THAT ITALY'S GOOD STANDING WITH THE ARABS WOULD KEEP HER OUT OF ANY DIFFICULTIES. MEDIA FOR THE MOST PART FOLLOWED THIS LINE, WITH ALMOST NO ALARMIST REPORTS SURFACING IN EITHER PRESS OR ON GOVT-OWNED RADIO AND TV. GOVT SEEMED TO BE COUNTING FOR WANT OF CLEAR ALTERNATIVES ON QUICK MIDEAST CEASE FIRE FOLLOWED BY OPENING OF NEGOTIATIONS WHICH WOULD HOPEFULLY ALLOW THE OIL TAPS TO BE OPENED ONCE AGAIN.

3. AS IT BECAME INCREASINGLY EVIDENT THAT OIL SUPPLY SITUATION WAS INDEED SERIOUS FOR ALL CONSUMER COUNTRIES AND THAT ITALIAN MARKET WOULD BE AFFECTED BY SHORTAGES IN OTHER EC COUNTRIES, GOI MOBILIZED ITS RESOURCES TO CONFRONT THE PROBLEM. GOVT NOW ENGAGED IN INTENSIVE PUBLIC EDUCATION CAMPAIGN TO IMPRESS UPON ITALIAN PUBLIC THE GRAVITY OF THE SITUATION. MINISTER OF INDUSTRY, DE MITA, HAS INHERITED THE ROLE OF GOVT SPOKESMAN ON THE SUBJECT THROUGH A SERIES OF INTERVIEWS HE HAS GIVEN TO THE MEDIA, INCLUDING TURIN'S "LA STAMPA," ROME'S "IL FIORINO" AND THE MASS CIRCULATION WEEKLY, "L'EUROPEO." GOVT POSITION IS THAT NEITHER FULL-SCALE PRODUCT RATIONING NOR SUCH DRASTIC MEASURES AS BANNING SUNDAY AUTOMOBILE TRAFFIC, AS DECIDED BY HOLLAND AND BELGIUM AND UNDER CONSIDERATION IN OTHER COUNTRIES, WILL HAVE TO BE UNDERTAKEN IN ITALY. GOVT THROUGH DE MITA PUBLICALLY CONCEDES THAT COMPULSORY MEASURES WOULD BE UNPOPULAR AND NEARLY IMPOSSIBLE TO ENFORCE IN A COUNTRY KNOWN FOR ITS ABILITY TO CIRCUMVENT RESTRICTIONS. GOVT ALSO AWARE

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OF SERIOUS CONSEQUENCES TO BUDGET ALREADY HEAVILY IN DEFICIT OF LOSS OF GASOLINE TAX REVENUES (ACCOUNTING FOR NEARLY 80 PERCENT OF RETAIL PRICE OF GASOLINE). OTHER IDEAS BEING THROWN ABOUT INCLUDE CLOSING GAS STATIONS SAT AND SUNDAY, TRIPLING WEEKEND AUTOSTRADA TOLLS, EXTENDING SCHOOL CHRISTMAS VACATIONS TO JAN 15 TO CONSERVE HEATING OIL, AND ADOPTION OF YEAR-ROUND DAYLIGHT SAVING TIME. ONLY MEASURE VIRTUALLY CERTAIN TO DAT IS 10 PERCENT CUTBACK BELOW LAST YEAR'S CONSUMPTION LEVEL OF GAS OIL FOR HEATING.

4. ITALY'S SUPPLY DIFFICULTIES AGGRAVATED BY INTERNAL PETROLEUM PRICE SYSTEM WHICH DOES NOT ALLOW COMPANIES ADEQUATE RETURN ON PRODUCT SALES. INITIAL SHORTFALL IN GAS OIL EXPECTED THIS WINTER DUE MORE TO ITS LOW DOMESTIC PRICE (\$48 IN ITALY AS OPPOSED TO FREE EUROPEAN MARKET PRICE OF OVER \$130/TON) THAN TO ARAB PRODUCTION CUTBACKS. BOTH INDUSTRY AND TECHNICAL LEVELS OF GOVT AGREE THAT PRICE ADJUSTMENTS BADLY NEEDED, BUT GOVT UNWILLING AND UNABLE TO PUT THROUGH SUCH AN UNPOPULAR MEASURE IN A PERIOD OF PRICE CONTROLS AND SHORTLY FOLLOWING RECENT PETROLEUM PRODUCT PRICE INCREASES (ROME 10564).

5. ENI STILL TAKES POSITION THAT AS FAR AS IT IS CONCERNED THERE IS NO SUPPLY PROBLEM, A VIEW THAT HAS SUBSTANTIAL SELF-SERVING CONTENT. ESSO, SECOND SUPPLIER AFTER ENI, INFORMS US THAT BITE FOR ITS CUSTOMERS WILL COME ABOUT JAN 1. OTHER SUPPLIERS ARE IN POSITION SIMILAR TO OR SLIGHTLY WORSE THAN ESSO.

6. FROM OUR CONTACTS WITH HIGH LEVEL GOVT OFFICIALS, WE RECEIVE DISTINCT IMPRESSION THEY HAVE NO RPT NO THOUGHT-OUT POLICY ON OIL APART FROM THE OBVIOUS DESIRE TO PROTECT DIRECT ITALIAN INTERESTS --IN THIS CASE, OIL SUPPLIES--AND TO INSURE THAT ITALIAN POSITION WITHIN EC REMAINS IN THE "MIDDLE AREA," AND NOT AT EITHER END OF THE SPECTRUM (THE DUTCH BEING AT ONE EXTREME, AND THE BRITISH AND FRENCH AT THE OTHER). THERE IS SOME DISAPPOINTMENT THAT GOI, AFTER ITS FORWARD POLICY WITH ARAB STATES (ARMS SALES TO LIBYA, SPECIAL ENI RELATIONS WITH IRAQ ETC) HAS HAD NO PERCEPTIBLE EFFECT ON ARAB PRODUCER ATTITUDES. BUT DESPITE TEMPTATIONS TO MAKE SPECIAL GESTURES TOWARDS ARABS--E.G., AS THEY DID FREEING TWO OF FIVE TERRORISTS WHO PLOTTED TO DESTROY EL AL PLANES WITH STRELA MISSILES--GOI IS KEENLY AWARE OF DANGERS WHICH OIL SITUATION POSES FOR THE COMMUNITY AND THE ALLIANCE. WE EXPECT THEY WILL CONTINUE TO HANG BACK UNLESS A SCRAMBLE DEVELOPS. VOLPE
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, EXPORTS, EMBARGOES, COMMITTEE MEETINGS, EXPORT LICENSES, REFINERIES
Control Number: n/a
Copy: SINGLE
Draft Date: 08 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: willialc
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973ROME12306
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731146/aaaabhzk.tel
Line Count: 154
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: ROME 12018 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 17 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17-Sep-2001 by kelleyw0>; APPROVED <23-Oct-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN VIEWS ON OIL SITUATION
TAGS: ENRG, IT, XF, EG, NL
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005